

Message Text

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R 122154Z MAY 75

FM SECSTATE WASHDC

TO AMEMBASSY MANILA

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CINCPAC

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CORRECTED COPY (LINE 3, PARA 5 OMITTED)

E.O. 11652:GDS

TAGS: MASS, RP

SUBJECT: M-16 RIFLE PLANT - FMS CREDITS IN FY 75

REFS: A. SECDEF 171616Z APR 75

B. AMEMB MANILA 5754

1. IN RECENT LEGISLATION, CONGRESS AUTHORIZED THE
FEDERAL FINANCING BANK (FFB), AN INSTRUMENTALITY OF
TREASURY DEPARTMENT, TO PROVIDE USG-GUARANTEED LOANS UNDER
FMS CREDIT PROGRAM. HERETOFORE, USG-GUARANTEED FMS CREDIT
LOANS WERE OBTAINED DIRECTLY FROM COMMERCIAL LENDING
INSTITUTIONS BY THE RECIPIENT COUNTRY THROUGH TREASURY'S
AUCTION BID PROCEDURE. ADVANTAGES OF FFB ARE THAT IT
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PROVIDES A GOVERNMENT-TO-GOVERNMENT NEGOTIATING FRAMEWORK

AND AN INTEREST RATE ON FMS CREDITS THAT IS WELL BELOW RATES AVAILABLE IN COMMERCIAL MARKET OR THAT WHICH WOULD BE AVAILABLE THROUGH TREASURY AUCTION BID PROCEDURES.

2. FYI. INTEREST RATES CHARGED ON USG-GUARANTEED FEDERAL FINANCING BANK (FFB) LOANS TO DATE HAVE CLOSELY PARALLELED THOSE RATES PROVIDED BY DIRECT FMS CREDIT AGREEMENTS.

IN AUTHORIZING USE

OF FFB AS A SOURCE OF FMS CREDITS CONGRESS SEVERELY RESTRICTED THE AMOUNT OF FUNDS AVAILABLE FOR USG DIRECT FMS CREDITS. THEREFORE, WITH THE EXCEPTION OF ISRAEL, (FOR WHICH CONGRESS HAS REQUIRED PROVISION OF DIRECT CREDIT IN FY 75) AND LARGE SCALE PROGRAMS FOR WHICH USG HAD ENTERED INTO AGREEMENTS ON CONCESSIONAL INTEREST RATE PRIOR TO ENACTMENT OF FFB AUTHORIZATION, NO REPEAT NO FY 75 DIRECT CREDITS ARE CONTEMPLATED, OTHER THAN SMALL AMOUNTS TO ONLY THE MOST UNDERDEVELOPED NATIONS. NO COUNTRY IN THE EAST ASIAN REGION HAS BEEN EXTENDED OR IS PROGRAMMED TO RECEIVE ANY FMS DIRECT CREDIT IN FY 75. END FYI.

3. THE MEMORANDUM OF UNDERSTANDING (MOU) BETWEEN THE USG AND GOP RELATING TO ESTABLISHMENT OF AN M-16 RIFLE PROGRAM IN THE PHILIPPINES STATES THAT "THE USG WILL... EXTEND EITHER (DIRECT) FMS CREDITS OR FMS GUARANTEES FOR CREDITS OBTAINED BY THE GOP FROM U.S. PRIVATE LENDING INSTITUTIONS..." ANNEX C OF THE SAME MOU STATES THAT THE FY 75 FMS CREDIT REQUIREMENT FOR THE GOP'S M-16 RIFLE PLANT IS \$7.0 MILLION.

4. TO SUMMARIZE, (A) WE ARE AWARE OF NO COMMITMENT TO PROVIDE GOP DIRECT VERSUS GUARANTEED CREDIT AS THE SECOND AND FINAL USG INCREMENT OF FUNDING FOR THE GOP'S M-16 RIFLE PLANT, (B) THE USG WILL PROVIDE, AS PREVIOUSLY AGREED, \$7.0 MILLION IN FMS CREDIT DURING FY 1975 TO COMPLETE FINANCING OF THE M-16 PROJECT, AND (C) THE \$7.0 MILLION WILL BE PROVIDED AT AN INTEREST RATE WHICH IN ALL LIKELIHOOD WILL NOT BE SIGNIFICANTLY DIFFERENT FROM THAT OBTAINABLE THROUGH FMS DIRECT CREDITS.

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5. WE HOPE THAT THE ABOVE INFORMATION WILL BE USEFUL IN EXPLAINING THE PROVISION OF GUARANTEED RATHER THAN DIRECT CREDIT TO THE GOP IN FY 75. FYI: INTEREST RATES ON ADVANCES MADE AGAINST FFB LOANS SO FAR HAVE BEEN LESS THAN SIX TENTHS OF ONE PERCENT ABOVE INTEREST RATE WHICH WOULD HAVE BEEN ESTABLISHED ON DIRECT FMS CREDIT AGREEMENTS SIGNED IN THE SAME MONTH THE ADVANCES WERE MADE. END FYI. INGERSOLL

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